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## Independence Standards Board - Minutes of Meetings, Meeting of June 30, 1997: Public Session

Independence Standards Board

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June 30, 1997

# Independence Standards Board - Minutes of Meetings

## Independence Standards Board Minutes Meeting of June 30, 1997 Public Session

The meeting convened at 1:00 p.m. on June 30, 1997 at the AICPA's offices in New York.

### **Members Present**

William T. Allen, Chair  
John C. Bogle  
Stephen G. Butler  
Robert E. Denham  
Manuel H. Johnson  
Philip A. Laskawy  
Barry C. Melancon  
James J. Schiro

### **I. Election of Chair**

Mr. Melancon welcomed the members of the Independence Standards Board ("ISB" or "Board") and requested nominations for its chair. Mr. James J. Schiro submitted the nomination of Chancellor William T. Allen, who was elected unanimously.

### **II. Discussion of Background of the Board's Formation and its Mission**

The Board discussed various challenges and opportunities facing the accounting profession and the Board with an emphasis on the provision of attest services. Mr. Melancon discussed the changing marketplace for attest services, the role of the SEC, impact of technology on the profession, and changes in the regulatory scheme for CPA firms. Chancellor Allen discussed the history of the independence of auditors as founded in the Securities Act of 1933. He noted that from the 1930's through the 1970's, the role of the independent auditor was primarily to opine on the financial statements. With the growth of the global economy, however, downsizing in corporate America and other factors, there is substantial demand for auditors to perform other services. He noted the fact that the market demands and rewards integrity, but that the market alone has not been deemed fully sufficient protection for independence of auditors. He noted that this Board has an opportunity to assist in the operation to establish independence standards applicable to auditors of public entities in order to serve the public interest and to protect and promote investors' confidence in the securities market.

Several Board members identified infrastructures that accounting firms have developed to protect auditor independence. Those structures include inspection programs, client acceptance and client continuance policies, peer review and

others. It was reported that firms have developed these infrastructures in response to the demands from the marketplace to provide new services and in recognition of the importance of independence to the profession and the public.

### **III. Discussion of Facilities Support for ISB by AICPA**

Mr. Melancon reported that the AICPA has agreed to provide facilities to the ISB, but no resolution concerning the ultimate location of the ISB office was passed. Further, as previously agreed, all activities of the ISB will be funded by the AICPA's SEC Practice Section of the Division for CPA Firms ("SEC Practice Section"). The Board agreed to annually submit an approved budget to the SEC Practice Section Executive Committee for funding.

### **IV. Strategy for Beginning the Work of the ISB**

The Board held a discussion covering several issues relating to its future work. Those issues included the following: (a) nature of the final product, (b) need for a deeper understanding of the issues, (c) need for overarching principles, (d) appropriateness of and need for empirical studies relating to the effect of multiple audit firm relationships on the integrity of audited financial statements, and (e) the importance of an executive director. The Board agreed to hold a meeting on September 22 geared to providing the Board with a deeper understanding of all aspects involved in the principle of independence. The chair, who is to consult appropriately, is to arrange the program for that day.

### **V. Adoption of Existing Independence Standards**

Chancellor Allen moved that the Board adopt as its independence rules, the existing SEC published rule (Rule 2-01 of Regulation S-X) and the SEC's published codification of independence releases. This motion was unanimously agreed to by the Board.

### **VI. Public Oversight Board**

The Board discussed the June 20, 1997 letter from Mr. A.A. Sommer, chair of the Public Oversight Board ("POB"), to Mr. Arthur Siegel, chair of the SECPS Executive Committee. The Board agreed that a liaison relationship would be beneficial to both organizations. The ISB would seek input and advice from the POB; however, it was noted that the ISB is not an activity of the SEC Practice Section and the POB would not have oversight responsibilities for its activities.

### **VII. Future Meetings**

The Board announced the following public meetings of the Independence Standards Board:

September 22, 1997 — starting at 8:30 a.m.  
December 15, 1997 — starting at 12:00 p.m.  
February 23, 1998 — starting at 8:30 a.m.

### **VIII. Adjournment**

The meeting was adjourned at approximately 2:30 p.m.

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